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In addition to work carried out by the full Committee, fact finding and deliberations also took place within three Subcommittees appointed by the Co-Chairs. The Subcommittees were organized according to their principal areas of focus: Human Capital, Firm Structure and Finances, and Concentration and Competition.¹⁸ Each of the Subcommittees prepared recommendations for consideration by the full Committee.

IV. Background

[Contents of Background to be included in subsequent drafts of this Report.]

V. Human Capital

The Committee devoted considerable time and effort surveying the human capital issues impacting the auditing profession, including education, licensing, recruitment, retention, and training of accounting and auditing professionals. The charter of the Committee charged its members with developing recommendations relating to the sustainability of the public company auditing profession. Likewise, the Committee directs the following recommendations and related commentary to those practicing public company auditing. However, the Committee recognizes that several of its recommendations regarding human capital matters would have impact beyond the public company auditing profession, impacting the accounting profession as a whole. The Committee views the accelerating pace of change in the global corporate environment and capital markets and the increasing complexity of business transactions and financial reporting as among the most significant challenges facing the profession as well as financial statement issuers and investors. These are directly impacted by human capital issues. To ensure its viability and resilience and its ability to meet the needs of investors, the public company auditing profession needs to continue to attract and develop professionals at all levels who are prepared to perform high quality audits in this dynamic environment. It is essential that these professionals be educated and trained to review, judge, and question all accounting and auditing matters with skepticism and a critical perspective. The recommendations presented below reflect these needs.

After receiving testimony from witnesses and from comment letters, the Committee identified specific areas where the Committee believed it could develop recommendations to be implemented in the relatively short term to enhance the sustainability of the auditing profession. These specific areas include accounting curricula, accounting faculty, minority representation and retention, and

development and maintenance of human capital data. The Committee has also developed a recommendation to study the possible future of higher accounting education's institutional structure.

The Committee recommends that regulators, the auditing profession, educators, educational institutions, accrediting agencies, and other bodies, as applicable, effectuate the following:

Recommendation 1. Implement market-driven, dynamic curricula and content for accounting students that continuously evolve to meet the needs of the auditing profession and help prepare new entrants to the profession to perform high quality audits.

The Committee considered the views of all witnesses who provided input regarding accounting curricula at educational institutions.¹⁹ The Committee believes that the accounting curricula in higher education are critical to ensuring individuals have the necessary knowledge, mindset, skills, and abilities to perform quality public company audits. In order to graduate from an educational institution with an accounting degree, students must have completed a certain number of hours in accounting and business courses. Accounting curricula typically include courses in auditing, financial accounting, cost accounting and U.S. federal income taxation. Business curricula typically include courses in ethics, information systems and controls, finance, economics, management, marketing, oral and written communication, statistics, and U.S. business law.²⁰ Since the 1950s, several

¹⁹ See, e.g., Record of Proceedings (Dec. 3, 2007) (Written Submission of Joseph V. Carcello, Director of Research, Corporate Governance, University of Tennessee, Knoxville, 8), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Carcello120307.pdf> (noting the market's expectations that university accounting curricula will expose students to recent financial reporting developments, such as international financial reporting standards and eXtensible Business Reporting Language); Record of Proceedings (Feb. 4, 2008) (Written Submission of Cynthia Fornelli, Executive Director, Center for Audit Quality, 3) available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Fornelli020408.pdf> (stating the need to "[d]edicate funds and people to work with accounting professors to ensure that the curriculum is keeping pace with developments in business transactions, international economics and financial reporting" and specifying the need to focus on ethical standards and international accounting and auditing standards); Record of Proceedings (Dec. 3, 2007) (Written Submission of Dennis Nally, Chairman and Senior Partner, PriceWaterhouseCoopers LLP, 4), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Nally120307.pdf> (stating the need to "[m]odernize and enhance the university accounting curriculum, which should include consideration of other global curriculum models to increase knowledge of International Financial Reporting Standards (IFRS), finance and economics, and process controls").

²⁰ Record of Proceedings (Feb. 4, 2008) (Written Submission of Phillip M.J. Reckers, Professor of Accountancy, Arizona State University, 13), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/02042008/Reckers020408.pdf> (commenting that business students typically take two sophomore-level introductory accounting classes and accounting majors take six additional accounting courses in their final two years of schooling).

private sector groups have studied and recommended changes to the accounting curricula,²¹ but notwithstanding these pleas for reform, curricula are characteristically slow to change.²²

In this regard, the Committee makes the following recommendations:

(a) Regularly update the accounting certification examinations to reflect changes in the accounting profession, its relevant professional and ethical standards, and the skills and knowledge required to serve increasingly global capital markets.

Accounting and auditing professionals commonly complete the requirements of professional examinations in order to comply with legal or professional association requirements. To become licensed at the state level as a certified public accountant, an individual must, among other things, pass the Uniform CPA Examination. Professional examinations, such as the Uniform CPA

²¹ See e.g., Franklin Pierson, et al., *The Education of American Businessmen* (1959) (noting that the main goal of a business education should be the development of an individual with broad training in both the humanities and principles of business); Robert A. Gordon and James E. Howell, *Higher Education for Business* (1959) (suggesting that accounting curriculum abandon its emphasis on financial accounting and auditing while emphasizing humanities); Robert H. Roy and James H. MacNeill, *Horizons for a Profession* (1967) (emphasizing the importance of a humanities background for accountants and recommending accounting graduate study); American Institute of Certified Public Accountants, *Committee on Education and Experience Requirements for CPAs*, Report of the Committee on Education and Experience Requirements for CPAs (1969) (recommending a five-year education requirement for accounting students); American Institute of Certified Public Accountants, *Education Requirements for Entry into the Accounting Profession: A Statement of AICPA Policies* (1978) (recommending a change from five years to 150 semester-hours and recommending that a graduate degree requirement at the conclusion of the 150-hours should be explicitly stated); American Accounting Association, *Committee on the Future Structure, Content, and Scope of Accounting Education*, *Future Accounting Education: Preparing for the Expanding Profession*, Issues in Accounting Education (Spring 1986) (examining accounting education and accounting practice since 1925 and concluding that since 1925, the profession has changed while accounting education has not changed); American Institute of Certified Public Accountants, *Education Requirements for Entry into the Accounting Profession: A Statement of AICPA Policies*, Second Edition, Revised (1988) (requiring that at least 150 semester hours are needed to obtain a CPA license); Perspectives on Education: Capabilities for Success in the Accounting Profession (1989) (noting that graduates entering public accounting need to have greater interpersonal, communication, and thinking skills as well as greater business knowledge); and Accounting Education Change Commission, *Objectives of Education for Accountants: Position Statement Number One*, Issues in Accounting Education (Fall 1990a) (awarding grants to schools as a catalyst for curricula changes in accounting programs).

²² Record of Proceedings (Dec. 3, 2007) (Written Submission of Ira Solomon, R.C. Evans Distinguished Professor, and Head, Department of Accountancy, University of Illinois, 14–15), available at <http://www.treas.gov/offices/domestic-finance/acap/submissions/12032007/Solomon120307.pdf> (lamenting the slow pace of change in accounting curricula and education).

Committee's Web page at <http://www.treas.gov/offices/domestic-finance/acap/press.shtml>. To avoid duplicative material in footnotes, citations to the written submissions made to the Committee in this Final Report do not reference the Department's Library, Room 1428.

¹⁸ For a list of members and their Subcommittee assignments, see Appendix K.